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# Expectations and accountability in managerial work

**Stefan Tengblad**

stefan.tengblad@gri.gu.se

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GRI (Gothenburg Research Institute), School of Economics and Commercial Law at Göteborg University, Box 600, SE 405 30 Göteborg, Phone: +46 31 773 10 00, Fax: +46 31 773 56 19,
E-mail: firstname.surname@gri.gu.se Homepage: www.handels.gu.se/gri

## Abstract

Based on a direct observation study of eight CEOs for large corporations, this paper examines how control is exercised in the era of financial transparency. In particular, the link between corporate governance and managerial work is investigated. The CEOs felt accountable for the company performance to exchange market actors. Inside their own companies the CEOs governed through setting and maintaining expectations rather then relying on centralised decision-making and giving instructions. Subordinate managers were given discretion, but their performance was closely watched and they had to fulfil expectations. This resulted in self-sacrificing work in the management cadre but also in conformity and non-constructive communication. In the end of the paper, the effects of managing by expectations are discussed with regard to issues about governance ethics, organizational learning and work balance.

**Descriptors:** managerial work, managerial behaviour, corporate governance, expectations, accountability

# Expectations and accountability in managerial work

## Introduction and theoretical framework

During the last decades financial markets have boomed and so have professions such as financial analysts, equity brokers and business journalists. The increasing importance of financial markets has been viewed as a social movement where new actors acquire influence over economic activities using concepts such as 'corporate governance', 'shareholder value' and 'transparency' (Davies and Thompson 1994). The proponents of shareholder value regard the main task for corporations to create wealth for the shareholder and argue that the shareholders should have the final say about the strategic development of the companies (Barnard 1991, Copeland et al 1990). In this paper, which is based on direct observation of 8 Swedish CEOs for large private companies, the link between financially oriented corporate governance and top managerial work is examined. The shareholder value-movement has been influential in many countries in the Western world during the 1990's with Sweden as no exception (Boman 1999; Brodin et al 2000; Carlsson 2001). However, the effect of the shareholder value movement on the actual work of business leaders has not been examined thoroughly before.

### *Business executives as administrators, decision-makers, leaders and expectations handlers*

Earlier research about top executives has produced different interpretations about the defining characteristics of their roles. A classic approach is to view them as administrators who plan, organise and co-ordinate (Fayol 1916/1949; Gulick and Urwick 1937). A second direction focussed on attention towards the concept of decision-making (Simon 1947; March and Simon 1958; Cyert and March 1963). The decision-making perspective was particularly dominant during the post war boom and guided many empirical studies of managerial work (Carlson 1951; Campbell et al 1970; Mintzberg 1973).

A third approach gained popularity around 1980 emphasising leadership as the primary role of top leaders as a response to perceived difficulties of competitiveness and stifling regulations (Czarniawska-Joerges and Wolff 1991; Barley and Kunda 1992). The probably most important book in 'the leadership movement' was *In Search of Excellence* (Peters & Waterman 1982). These authors argued with reference to Barnard (1938) and Selznick (1957) that the main role of a top leader was to protect and promote values through symbolic action, a point made also by several researchers (Pfeffer 1981; Smircich and Morgan 1982). During the 1980's a growing stream of literature was published that advocated the central importance of leadership (Bryman 1992 and 1996).

In this paper the role of top executives is interpreted as efforts to *managing internal and external expectations*. It is anticipated that successful CEOs are able to fulfil external or internal expectations and actively mould them. The latter can, for instance be accomplished through the external communication of a new strategy, or by convincing subordinate managers of what is now expected from them. Although viewing the role the top executive as *an expectation handler* is not actually incompatible with any of the perspectives above, it emphasises a different managerial role that is related to the growing importance of capital markets in new corporate governance regimes.

***The rising importance of expectations in the financial sector***

The role as expectation handler is related not only to the rising influence of financials markets, but also to changes in the financial markets themselves. In earlier periods the investors based their investment decisions on level of yields, historical rates of returns and financial stability to a large extent. During the last decades the investors have become growingly oriented towards judging future prospects. The eye of the investor has largely moved from the balance sheet to cash flow analysis, in particular to projections of cash flow in the future. One influential book behind this new orientation is Copeland et al (1990), in which models for forecasting cash flow are presented. Calculations of future cash flow are of necessity based on expectations, which can be more or less well grounded. Investors' expectations of company performance are typically investigated in stock market surveys and the average expectation figures are compared with the actual outcome. Business reporting constantly contains information like 'The profit of company X for the last quarter was less than expected and the share was down by 6 per cent". It's not unusual that a share goes down when a company presents record profit, because the expectations were even higher.

The second major indication of the growing importance of expectations in corporate control is the exploding market of financial instruments for handling risks such as derivatives, options and futures. The total number of contracts of derivatives and futures worldwide increased from 18 million 1975 to 1,8 billion 1995 (Young and Thyes 1999). The value of this kind of instruments is solely determined by seller/buyer expectations of future risks and returns. The perspective of future expectations that is deeply ingrained in derivative markets has not least influenced top executives by the rise of stock options as a central means for executive compensation. The share of stock options in total compensation for the CEOs in companies in the Standard & Poor 500 index increased from 25 per cent in 1992 to 40 per cent in 1998 (Financial Times, June 10 2001). The common opinion of both practitioners and researchers is that the use of stock options has created a closer alignment of shareholder and executive interests (Bruce and Buck 1997).

***Expectations, sensemaking and alignment***

Expectations are more used in everyday language than as a scientific concept. However, the concept of expectations is a central one both in functional sociology and leadership research. An early emphasis on the importance of expectations and a point of departure in this paper is Talcott Parsons' essay *The Motivation of Economics Activities* (Parsons 1954). Parsons describes in the essay the importance of expectations for integrating economic activity – it is the expectations that uphold institutions, since the well-integrated personality knows what is expected and respects authority and legal frameworks. Parsons claims that clearly expressed expectations lead to conformity – the higher degree of institutional integration the greater conformity is to be expected. This does not mean that actor preference and self-interest are of no importance, but that the expectations govern the direction of the self-interested behaviour, implying that actors are rewarded for their fulfilment of expectations. The expectations are mutual; actors expect each other to have expectations and act accordingly (Wearne 1989).

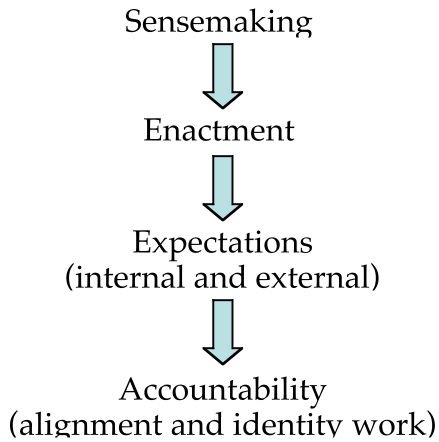
Related research to this paper about expectations also includes research about leadership and career development. Expectancy theory (Porter and Lawler 1968;

Nadler and Lawler 1977; Pavett 1983) investigates the relation between leader behaviour, employee expectancy, motivation and outcome. The expectations of a leader is also a central component in contingency approaches to leadership (Chemers 1985; Stoner and Freeman 1989 p 469-70). For instance new leaders who were told that their subordinates were low performers acted in a more authoritative manner than leaders who were told to have high performers (Farris and Lim 1969; Eden 1984). Other examples of the importance of expectations came from researchers about career development who report that employee expectations affect both job satisfaction (Porter et al 1975) and career success (Rosenbaum 1989). But the most interesting study about leadership and expectations in this setting is 'Becoming a manager' by Linda Hill (1992). Hill who closely followed 19 newly appointed managers in their first year found that their major difficulty in their transition to manager was how to reconcile between an endless number of different expectations from superiors, peers, subordinates and also their own expectations of how they would like to behave as a leader. Hill's study clearly shows the importance of coping with different expectations in managerial work and also the fruitfulness on focussing on the concept of expectations as such. Also of vital importance in this setting is that Hill analyses expectations on a more systemic level – i. e. how expectations of different actors relate to each other – in contrast to the leadership research above that analyses expectations in the narrower relation between a leader and his/her followers.

Expectations should be seen as a part of actors' efforts to make sense of the world (Weick 1995). Economic actors live in a complex and demanding context and what the environment of actors consist of is to a part produced by the actors themselves, environments are enacted (c f Weick 1988). When actors perceive that certain expectations are held at them, they normally feel themselves as accountable for fulfilling the expectations.

The actors can also have expectations on other persons and hold them accountable for these. The process in which actors deal with the issue of accountability is, according to Munro (1996), through alignment – which is close to Parsons' concept of conformity- and through identity work; how the actors make efforts to be seen as competent by those who they feel accountable towards. In this paper the relation between expectations and accountability / alignment is focussed. The theoretical framework of the paper is summarised in Figure 1.

*Figure 1 Theoretical framework*




To conclude, I claim in this paper that recent changes in corporate governance, related to the increasing role of financial markets have affected the work of top executives, as they are held accountable for creating shareholder value. To create shareholder value assumes that the company in question will meet or exceed investors' expectations. There are no upper limits of a satisfactory rate of returns, only that each company should strive for being a superior investment in the eye of the investor. I will discuss the implications for managerial work when creating shareholder value is the primarily goal, and in particular I will emphasise the interconnectedness between expectations, accountability and alignment between financial market actors, CEOs and subordinate managers.

## Conducting the study

The paper belongs to a study about work behaviour of CEOs, in which a replication of the first systematic investigation made in this topic has a central place (see Tengblad 2002b). This study was conducted by professor Sune Carlson who engaged nine prominent Swedish business leaders in an intense diary and observation study in the late forties (Carlson, 1951).

The empirical material for this paper primarily consists of field notes from direct observation of the work of eight Swedish CEOs during 26 working days. The observations covered in four cases 5 working days per participant and in the remaining cases 1-2 days. With some few exceptions all working activities during these days were observed. In total the observation covers little more than 300 hours of work and a broad spectrum of different kinds of activities such as management group meetings, public appearances, budget reviews, negotiations, management training, meetings with investors, field visits and small talk. Also sensitive activities such as board meetings, recruitment of managers, appraisal talks and merger discussions were observed to a large extent.

The observations were very intensive and it was not possible to record all the conversation due to physical limitation of keeping field notes. Sometimes it was possible to record a dialogue in a relatively detailed manner, sometimes not. The long days of observation were exhaustive both for the brain and for the writing hand, a typical observation day generated about 40 pages of field notes. Despite the impossibility of recording the complete occurrences, direct observation provides in comparison to interviews and questionnaires a superior possibility to collect 'real' action (Czarniawska 1998), and to get inside the 'invisible rooms' where leadership is exercised (Sjöstrand et al 2001). When following a business leader during 60 hours in a week, it is not possible to understand how all the activities relate to each other or to gain a proper understanding of the background and reasons for the action, but one gets a very good picture of how the business leader behaves in his daily work. The method is thus suitable for studying individual leader behaviour rather than the collective process of management.

All eight participants were men and their experience of CEO positions ranged from one to 17 years (mean eight years). They led companies in the industries of manufacturing (2), banking and insurance (2), forestry, media, retailing and energy. Six of these companies were listed on the Stockholm Exchange, one was jointly owned by the companies of an industry and one was a large family business. The mean number of employees was at time of study about 6.000 and the combined market value of the public companies was about 20 billion Euro. Some of the companies were truly international; three of them had more than 90 per cent of their employees outside Sweden. These companies were also growing at a high rate, both due to organic growth and through acquisitions.

The total workload for the CEOs was challenging. They worked on average 62 hours per week, with an individual variation from 47 to 76 hours. They generally expressed satisfaction about their working situation, even if they often felt pressure especially at times when the company performance was lower than expected.
The CEOs were in general rather sporty and unpretentious. They saw taking care of their health as a condition for coping with the job demands. With one exception they exercised regularly. They participated in activities such as jogging, tennis, golf, basketball, badminton, strength training and sailing. None of the CEOs smoked. All but one had a Volvo as company car, typically not the most expensive model. A participant saw this as a symbolic message related to the issue of handling expectations: 'If you want your co-workers to have Opels you can't drive a Jaguar yourself.' Other examples of unpretentiousness were a participant who transported his children to the day-care centre in the mornings and one participant who lived in the working-class part of town. Their own offices were also generally more functional than luxurious. White walls and wooden floors were the most common interior. Their unpretentiousness may be a reflection of the fact that they in general had had a middle-class upbringing in the countryside of Sweden.

## Empirical section: Handling external expectations

In this section I will mainly discuss how the CEOs handled expectations from exchange market actors. In the listed companies, they had regular contact with investors, analysts and business journalists. These contacts included information exchange in both directions. The CEOs provided information about what expectations of company performance that are reasonable to set and they wanted information about what expectations the exchange market had on their company. An illustrative case of information exchange was observed when an analyst visited a forestry company.

> Analyst: ' The reason for my visit is that I want to write a company report about your company that I want to sell to the large English investment banks. The timing is good, the company is performing well and the knowledge about the company is not so big'
> CEO: 'The valuation has never been lower. The problem is that analysts write positively about the company and recommend buying, but that nothing happens afterwards.'
> Analyst: 'You have a strength in your specialization but a drawback in your size. In today's enormous flow of information it is easy to be forgotten.'
> CEO: 'How much bigger do we need to be attractive to the major investment funds. Five times bigger or?'
> Analyst: 'Unfortunately it looks like that. But you have a strong balance sheet and low investment needs. Wouldn't it be wise to make some acquisitions?'
> CEO: If the prize is right, we always want to make acquisitions.'
> Analyst: (repeating) 'The company is well invested, the balance sheet is strong. Will you give the shareholders extra dividends or will you make acquisitions?'
> CEO: (irritated) ' We are looking on acquisitions.'
> The CEO then starts to inform about company structure and strategic intention. After the presentation the analyst grabs one of the OH-slide showing the company structure and puts his hand on two of the business areas and says: 'you should get ride of the pulp business and maybe also the tissue business.'
> CEO: What price do you want to set on our pulp mill? It has a booked value of 40 million Euro, or one Euro per share.'
> Analysts: 'I really don't know, but let me say: If you lose a half of a Euro per share in an acquisition, then the share will definitely go up. The investors looks to the longer terms, and are deadly frightened about the volatility in the pulp sector.'

During the meeting with the analysts who took little more than 3 hours including lunch and a factory visit the analyst gave many other suggestions about strategic changes in the forest company and provided information about what other analysts concerned to be risks and opportunities for different segments in the pulp and paper industry. In sum the meeting was packed with exchanges of expectations and the

CEOs afterwards said that he found the comments from the analyst to be interesting although he  thought the market's demand of stable and increasing rate of returns was unrealistic in a volatile and capital intense business such as forestry: 'When we make larger investments we expect them to hold 20-30 years and that investment shows good profitability over the whole cycle, the market wants to see profits almost immediately.'

The participants perceived the expectations from shareholder-related actors as demanding and discussed this issue extensively in a joint feed back session (October 8, 2000). None of the participants questioned the right of shareholders to receive detailed information or expressed that they have gained too much power. They recognised that a change had occurred and that some, in particularly older CEOs were uncomfortable when explaining company strategy to 25-year old analysts. They expressed that a CEO nowadays has to be a good salesman of the stock – although a realistic one – in the communication with the exchange market. One participating CEO clarified this position by saying:

> 'Business leaders of today need the capability to communicate the story of the company in a convincing and interesting way […but] you should not exaggerate because you have to be there the next year also. You have to keep the prognoses, otherwise the investors will be disappointed.'

How to create a balance between moulding expectations so that the stock will develop positively, without creating unrealistic expectations was seen as one of the most difficult tasks for a CEO. The importance of moulding external expectations was illustrated in an investor meeting at the producer of commercial vehicles Volvo AB in March 2002. The CEO perceived at the end of the meeting that the presentation might have been too successful; the audience seemed to have got a very optimistic picture about the future of the company and he feared that this might create expectations difficult to reach. His closing statement was therefore: 'If you have got a more positive picture [about the company] than at the last meeting, then you are wrong'.[1]

[1] Source: Göteborgs-Posten (a leading Swedish newspaper) March 15, 2002, s. 31.

The participants of the study often perceived the judgements of the exchange market as unfair but they nevertheless felt obliged to try to satisfy their demands and expectations, since they felt dependent upon investor confidence. The gain of such confidence was related to the fulfilment of the exchange markets' expectations (c f Luhmann 1980). One case about how the participants felt accountable to exchange market actors was observed in the retail company here called *The bargain store*. This company had built a large storehouse in the centre of Sweden together with a business partner. This location had been criticised by business journalists who believed that this storehouse should have been located 500 kilometres further the south. In a meeting with a representative of the business partner the CEO asked whether it was possible to receive a dividend from the storehouse unit at the end of the year, as 'proof' of the economic wisdom of the location. When the representative said that a dividend was not possible the CEO angrily stated:

> 'If we don't get a dividend for 1999, the exchange market will cut our heads off. In *Veckans affärer* [a weekly business magazine] there was a long article about the location issue. It said that we couldn't control our costs. I have phoned them and tried to downplay, but it will be a big issue.'

The CEOs also saw advantages with the strong expectations from the exchange market. One participant said during the feed back session that the transparency of the companies made his organization well aware of what was needed to be done, and that the external pressures had created a very strong force for change. This leads us to the next topic, how the CEOs translate the external expectations and communicate them in their own organization.

## Communicating expectations

Compared to Mintzberg (1973), the participants in the new study spent more than twice as much time on ceremonies and giving of information – activities that provide opportunity for the CEOs to communicate expectations (see Tengblad 2002a). The 'information' conveyed by the CEOs mainly had a normative touch, which included not least the communication of expectations. Not even the CEOs of the most successful companies were satisfied with the present state-of affairs, they still believed the company could improve its operations substantially. They tried to influence the organization through communication, often by using stories (Watson 1994 p. 113; Boyce 1995; Gabriel 2000).

Messages about the desired state-of affairs (for instances formulated as 'Ten commandments', 'cornerstones', 'business mission' or 'corporate vision) were transmitted through booklets and brochures in most of the companies. Several of the participants on the feed back session (October 8, 2000) pointed out that they regarded organizational culture to be a very efficient tool to guide the subordinates to take the proper action (c f Rosen 1985; Kunda 1992; Mills et al 2001). During the observations the CEOs made numerous efforts to spread the gospel. The CEO of *The bargain store* for instance constantly preached the importance of certain values that he believed was the reasons for the relative success of the retail chain such as friendliness, service orientation, environmental awareness and cost consciousness. He felt that the expansion in particular to the Stockholm region posed a challenge to the core values since the employees there in his perception were no different than those of the competitors.

Meetings with personnel, management training sessions, management conferences, and field visit to subsidiaries and local units provided opportunities for the CEOs to communicate their expectations. The following excerpts were gathered from a management conference in a multinational company that contained many occasions when the CEO transferred external expectations to his senior management. In the opening speech the CEO addressed the importance of meeting expectations very explicitly:

> ‘We have had a very good year. Results are up 35 percent. The share has risen even more. We have such a high valuation because we have delivered what has been expected, I think. When we don't deliver then our fun period is over. I like you to remember what Mr. Johansson [a senior executive within the company] once said: ‘Sales is an estimate but profits is a promise.’ It has become a proverb in our Group. We all have to meet expectations.’

The importance of meeting expectations was underlined by the CEO while showing the last OH-slide of the conference, which stated: ‘Failure is not an option’. Just before that the CEO also declared that he was not satisfied with the sales figure for the two first months of the quarter and that he feared that this might affect the company's image on the stock markets as a ‘growth company’.

> ‘A last point: Our growth was only one percent in January/ February. March last year was a very strong month. It seems like we actually are going to present a negative growth. This will not be well received by the market. Therefore we have to ship out as much as possible before March 31.’

The CEO felt obliged to show evidence of organic growth in every report in order to sustain the image of success and in the financial report for the first quarter the company presented an organic growth of 2 percent, thanks to this tactical manoeuvre. The stock took nevertheless a dive by ten percent after the report since it was below expectations, but no major crisis of confidence arose.

The CEO also reminded the participants of the conference several times that they were to be held accountable for meeting the expectations that he had communicated. This concerned for instance the company performance and to the establishment of a shared culture:

> ‘Our success is dependent on good communication at all levels in the Group. We are all ambassadors. If the message from this conference doesn't reach lower levels in the organization we will take the blame, but we also blame you. You are our hostage now. You can only blame yourself if we don't succeed in creating a group spirit.’

The CEOs also communicated expectations on specific managers in dyadic encounters. They could for instance make managers whose units did not consider performing satisfactorily to feel a pressure to improve. During a visit to a regional unit, the CEO of a financial company and the region director drove from the airport.

The conversation circled about the Clinton testimony in 'the Lewinsky affair', but the CEO introduced a new topic:

> 'Changing the subject for a moment. The rationalisations plan that your predecessor worked out in order to lower the costs, have you fulfilled that plan?'
> Region director (RD): 'Yes we have. We have also accelerated the plan.'
> CEO: 'Our Group controller has gone through your figures and he says that the rationalisations in this region have slowed down.'
> RD: 'No that is not the case.'
> CEO: 'Maybe you're right there.'
> RD: 'But of course, there is a certain redundancy of personnel. The competition is also very strong, even if we have slowly increased our market share.'
> CEO: 'Otherwise one can sometimes feel a lack of a strong culture in this region. Business orientation and thriftiness you know. And there has been a lack of self-confidence. Everyone was talking about how good the main competitor was.'
> RD: 'But that time has passed. Now we have strong self-confidence.'

This brief encounter not only made the regional director aware that the CEO expected improvement in his region but also that this work was carefully monitored from the central level. How the CEOs monitor expectations in order to achieve a general attitude of accountability and alignment among subordinates is the topic for the next section.

## Monitoring expectations

The CEOs felt that the exchange market closely monitored their work. The ongoing verdict from 'the market' was provided by the development of the share price. The CEOs alignment to the financial markets was clearly expressed by the fact that they closely followed the share fluctuations, sometimes several times per day. The CEOs work was also monitored in surveys, in which analysts and investors ranked their competence. The ranking list did often provide some CEO at the top of the lists with high prestige, but negative ranking was also made. The business magazine 'Aktiespararen' (The Shareholder) for instance regularly survey market opinions about the CEOs with the highest risk of getting fired.

The CEOs spend a lot of time on monitoring how well their subordinates meet the expectations. A vital condition for knowing how expectations are fulfilled is access to valid information about the accountable ones. 'Getting information' was the single most recorded activity comprising 23% of total working time of the CEOs (Tengblad 2002b). The CEOs were eager to obtain information about both financial performance and how well the individual manager performed his duties. In reality these aspects often became intermingled.

The main instrument for monitoring the financial situation was the monthly performance report. Typically this report was compared with a budget, which in turn reflects forecasts and projections about the following year. But more importantly the budgets were also used for setting goals and expectations. The CEOs generally considered the budget to be an important instrument of control and they wanted to commit their subordinates towards ambitious financial goals. When negative deviations occurred the subordinate managers were expected to bring acceptable arguments about the reasons for the deviation and also to be able to take measures for closing the gap between the expectations and the actual outcome. The ideal was to create a self-monitoring system, where subordinate managers become guardians of expectation. In a follow up interview, one participant explained the principles of financial control in his company:

> 'We have a very fast accounting system. In eight days we have a monthly performance report. It's very good because is there a problem one month which also appears the following month, then they know I will be calling them. So actually, you don't have to interfere much, it regulates itself.'

In three companies, internal benchmarking over financial performance was used extensively. The main purpose of benchmarking was to create a will of improvement and a competitive spirit among the units, but it also provided the CEOs with detailed information for monitoring and comparing the performance of subordinate managers.

### *Judging managers' performance informally*

One of the most frequently used techniques for monitoring was to collect informal performance reviews. Situations when the CEOs were requesting opinions or captured information about other managers occurred in many different settings; during breaks, lunches, travels, recruitment activities, management training, budget follow-up meetings and even development talks. After a meeting for planning a golf tournament the CEO asks a sales manager in a subsidiary about informal information:

> CEO: 'Something else to tell from the mill?'
> Sales manager: ' The new guys I got are very good. A good team that like each other.'
> CEO: 'It is not like the production manager, Mike. But he seemed energetic.
> Sales manager: He knows what he wants and he is very goal-oriented, but he can't handle people. And then one should not be a production manager. There were conflicts all the time. He is a bit of a lonely wolf. And he made the mistake of trying to change everything. And it went wrong. I mean, to come to a mill where nothing works and people are dissatisfied, it's a tough challenge. But there were many who liked him and his ideas.'

In an international manufacturing company I was attending a budget follow-up meeting for the sales units. Very few figures were mentioned during the meeting. The discussion was instead mainly about whether the responsible managers were trustworthy and capable of the task of meeting the financial objectives:

> CEO: 'How about Canada?'
> Marketing manager (MM): 'He will probably manage. But the targets are not high.'
> CEO: 'He is a yellow-belly. [...] In US there are problems for the X-products. The manager gives bad explanations. Holidays, all kinds of reasons to avoid coming out on the field.'
> MM: 'He hasn't been out because he had problems at home.'
> Divisional head: 'But that problem has been resolved.'
> MM: 'Yes. His wife has left him now.'
> CEO: 'We have to let him put together an action plan, which we have to follow up. [...] Brazil does not look good.'
> MM: 'He complains like hell how tough it is. But he always does that.'
> CEO: 'Whiner. What about South Africa?'
> Divisional head: 'It's awful. Bob has sent me some articles about the economic crisis.'
> CEO: 'They usually do that when things go bad. It's called cover your ass.'

> MM: 'But the situation is really bad. Hospitals are being closed down.'

The meeting continued in this vein for more than one hour. The corporate morality in this setting can be described as 'You are what you deliver!' Furthermore, marital problems should not to interfere with the commitment to the budget.

One CEO, who was praised for his good leadership manner, exemplified the great importance of economic performance when appraising managers. The CEO described his US manager – who controlled the single most profitable operation and who held a reputation of managing his organization extremely hard – during a walk: 'He is a brute, not quite sane actually, but he is nevertheless my best manager.'

In a financial company I was attending a development/appraisal talk with the CEO and the group controller. Such meetings are supposed to concern mutual feedback about the co-operation between the two, but this topic was accomplished in a minute since the controller didn't address any issue. Instead the CEO requested the financial manager's opinion about the other members of the top management team and the subordinates within the internal control department:

> CEO: 'What about the units you are co-operating with?'
> Group controller (GC): 'Concerning the southern region, there is no problem, however it's a little thin of competence around the director. Then Jan in region East. I know him well and it's important that he has good co-workers.'
> CEO: 'How is Jan doing. It is important that it goes right. He has a large operation.'
> (GC): 'Jan is dependent on good co-workers.'
> CEO: 'Why do you keep saying so? Is that a way of saying that he is not a good manager?'
> (GC): 'He is not 100% in his judgements. I noticed that already when I worked with him. Then Lars in the Western region is the one who I trust the most. Enormously judicious.'
> CEO: 'I'm very pleased to hear that.'

The 'development talk' took 40 minutes. During this activity the group controller assessed over 20 managers. Together with talks with the other members of the top management team, one can suppose that the CEO possesses a very deep knowledge of who respects whom and that he could make intricate comparisons between collegial impressions and his own.

To conclude; monitoring performance was a central activity for CEOs and the performance was based extensively on how well expectations are kept – primarily financial ones often conveyed in informal encounters.

## Making expectations real: The carrot and the whip

A central part of the increasing alignment between shareholders and corporate executives is compensation packages linked to share performance. All CEOs of the listed companies had fairly recently joined stock options programs. For two of the participants such programs had created personal fortunes of several tens of millions Euro. This can be compared to the basic salaries for the CEOs of the listed companies, which were in the range between 200.000 and 700.000 Euro. Subordinate managers were also aligned to shareholder value as they took part in the stock option programs.

Also rewards of a symbolic nature were used. In one company, the use of colour slides presentations were only allowed in internal meetings if the unit performed a return on investment of 20 percent and more. During a management development program in this company the CEO gave another example of a symbolic reward related to subordinate alignment to a central initiative:

> Mexican manager: 'You mentioned that we could save money with the use of investment co-ordination. I'm going to expand the production in my factory and maybe there are machines in the rest of the Group that can be used. Is it a good idea to create a database over machinery available in the Group, which can be checked out before we contact external suppliers?'
> CEO: 'An excellent idea! You will have a star in the company scorebook.'

However, the increasing generosity of financial rewards seems to be linked with a growing impatience with performances below expectations. CEOs for listed companies in Sweden are being replaced more and more often. In 1999, when most of the empirical work was conducted, the total turnover of CEOs at the Stockholm Exchange was 19%[2], a twice as high proportion compared to the 60's and 70's

[2] Source: Svenska Dagbladet, 27th of October, 2000

(Holmberg 1986). The new practice that more and more implies that CEOs are replaced when there is a belief that someone else is better suited for the job did affect many of the participants in the study. Two years after the study, only two of the six CEOs (for the listed companies) were still working as CEOs. Two of the successions were related to age but two participants were forced to resign.
That the increasing impatience with 'under-performing' CEOs also affects managers at lower level is indicated in interviews with CEOs in another Swedish study (Trollestad, 2001). It is a fairly widespread opinion in Sweden that the turnover of managers has increased substantially and that managers that perform below expectations are 'legitimate quarries'. This can be related to an overall development in many Western countries. Regular dismissals of under-performers are for instance a central part of the management philosophy of the much heralded shareholder value champion Jack Welch (Welch 2001). Also fairly recent studies about middle managers in the UK, report that middle managers often feel that they are subject to excessive pressures (Scase and Goffee 1989 p 63; Watson 1994).

Some of the participating CEOs were engaged in dismissals of subordinate managers during the study. A situation that concerned dismissals is collected from a manufacturing company who had decided to cut headcount in a marketing staff. Three positions should become two but the person least wanted was protected by the Swedish Law of employment security:

> Marketing manager (MM): 'The problem is that with his education and years of service he can claim that someone else should leave.'
> CEO: 'What is his education?'
> MM: 'He is an MBA.'
> CEO: 'He has hidden that well.'
> MM: 'You don't know him.'
> CEO: 'Maybe I don't. But he is too much an 8 to 5 person and perhaps a little too rigid. But the job may no longer be a challenge for him.'
> MM: 'When he arrived, things were in mess and then he worked hard.'

It was decided to offer the unwanted person a new position in the expectation that he would regard the terms as unacceptable and that he would leave 'voluntarily'. The episode also illustrates how CEOs communicates expectations indirectly in their action: The value of hardworking was expressed and no 8 to 5 attitude was accepted.

Before dismissals are considered the CEOs could show dissatisfaction in ‘straight talk’. This was the case during an effort of acquisition when a CEO phones his country manager in Germany. One matter dealt with whether the country manager should move to the town in which the prospective company had its head-quarters. Unfortunately it was impossible to record the answers from the country manager, but the excerpt clearly shows that the CEO communicated expectations about total commitment:

> ‘What is the total cost of the company at a stock price of 50 francs?’
> ‘You don't know! Haven't you studied the deal, then it is no use for us to discuss.’
> ‘I will not accept that as an alibi for not taking care of the cost structure and for you to move there. If the enthusiasm isn't larger than this, we are in trouble. You should be prepared to move to Africa if I ask you to!’
> The telephone call continues with some other items. Then the CEO asks:
> ‘How big savings are you counting on within three years?’
> ‘But you must have made some plans about cost reductions?’
> ‘No calculations have been done! This is so indifferent. We can't make an acquisition without having an opinion whether it is a good deal.’
> ‘I don't understand your argument. Maybe you don't either. You have to take charge, otherwise we'll send someone from Stockholm!’
> ‘You can't blame someone else. You have to be engaged in this deal. I have felt before that you are tired and uncommitted. If I should be in a deal like this, I would have worked night and day. Haven't I the right to demand you to work your guts out? You should phone me by four o'clock, and then be informed! Put everything else aside.’

After the call the CEO described the country manager to me as ‘a fat and lazy farmer's cat, who one has to be little cruel to so that he understands what is required.’

## Employee responses towards expectations: Alignment and conformity

It was more a rule than an exception that subordinate managers carefully listened to the CEO and then concurred with him. This alignment orientation often led to a lack of critical and constructive discussions, even when the CEO tried to encourage such discussions. In one company, an attempt to acquire a Nordic competitor was conducted during the observation period. During the monthly group-management meeting the CEO presented the deal. He received only joyous acclamation.

> CEO: ' [...] To conclude, this deal represents one of the last opportunities to acquire a midsize competitor in this country. After that, there are only big players left. What are your opinions?'
> Manager 1: 'There is large confidence for our way of doing business and this goodwill will help us succeed in this deal.'
> Manager 2: 'It must be the right way.'
> Manager 3: 'Nobody can question our competence in this area.'
> Manager 4: 'Are we not already viewed as a domestic company (in the country in question)'
> CEO: 'Are some of you guys prepared to move there?'
> Silence
> CEO: 'It is a challenging task. We will discuss the position with John. What do you think of him?'
> Manager 5: 'He is stable.'
> Manager 2: 'He knows the market very well and is in his prime.'
> Manager 6: 'He is a suitable candidate.'

However, the acquisition effort failed. The Board of the targeted company viewed it as a hostile take-over and a white knight was invited. The outcome might have been different if a more constructive discussion had taken place in the management group about possible reactions from the targeted company and from competitors.

A second excerpt emanates from a recruitment interview for a position as assistant project-leader in a business development team. After the meeting the administrative manager, the project leader and an external consultant in hierarchical order connect their opinions to those of the CEO:

> The candidate leaves the room
> Silence (five to ten seconds)
> The CEO: 'I think this will be good. And she is a structure fanatic.'
> Administrative manager: 'I think this is going to be very good.'
> Project leader: 'This will be good.'
> Administrative manager: 'She had the right attitude, did you notice that?'
> External consultant: 'She has straight hair. The straighter the hair is, the more structured one is.' (The consultant had a crew cut).

A consequence of that subordinate managers often do not say what they really think, but what they feel is expected of them, is that CEOs mostly receive information that reinforce their world-view. The problem of 'yes man-ship' is not new (see Burns & Stalker 1961: 212 for a thorough discussion in the matter), but it can be anticipated to become a larger problem in organizations that are characterised by impatience, sudden dismissals and strong demands on accountability and alignment.

Conformity in managerial work that has been discussed by Whyte (1956) and Dalton (1959) as related to group-orientation in business life (Human relations) and by Kanter (1977) and Hannaway (1989) as a consequence of bureaucratic organising can in this study also be related to high performance pressures. The CEOs expect total commitment and feeling of accountability from their direct reporting managers. The stress on accountability led to organizational behaviour characterised by alignment and discipline rather than openness and creativity.

The tendency towards alignment to conformity can be expected to have a negative impact on creativity and innovation capacity. Researchers have argued that exchange markets tend to overemphasise short-term gains in relation to long-term investments in R & D (Hansen and Hill 1991; Short and Keasey; 1997). It may also be the case that clearly expressed and demanding expectations, regardless whether they are short-term oriented or not, can hamper long-term development, since such expectations – as Parsons (1954) suggests – lead to conformity.

## Conclusion and implications

The empirical descriptions show that the work of CEOs is governed by external expectations, particularly from the exchange market. The CEOs often enacted their environment as unfriendly and highly competitive and this reflected their work. They were aligned to the expectations of the exchange market by an ideological commitment to the principles of shareholders value, by financial rewards and the risk of getting fired.

Even if cognitive dispositions of the CEOs was not in focus in this study, it was obvious that they had developed a set of ideas about what's important, which in line with Kotter (1982) can be labelled as 'agendas'. The common content of these agendas was growth, concentration on core-businesses, excellent return on investments and high productivity. The CEOs felt that they were part of a play with huge stakes and this meant that there was not much room for either 'strategic visioning' or 'considerate leadership'. They had very long working days but still little time for their personal development.

The CEOs made many attempts to implement the agendas by using different means of influencing the organization each working day. These interventions seldom had the character of formal decision-making and giving of orders. Instead the CEOs made clear what they felt was important by communicating expectations and they often used stories when preaching values. The CEOs expected their subordinates to work very hard and be fully committed towards the financial objectives. The sense of accountability and the need of alignment were always present.

What are the implications from these observations? Firstly, there are reasons to believe that shareholders' expectations about performance above average also have impacts on the daily conditions for non-managers. There is a need to further study how such expectations are channelled into the daily work of the employees. In Sweden there are many indications of rising demands on the individual employee and this phenomenon is not only related to listed companies. There has been a substantial rise in the level of absenteeism due to work related stress in most sectors of the labour market, not least in education and health care. Exhaustion and burnout have become the fastest growing causes for long-term absenteeism (Näringsdepartementet 2001: 160). In a national survey from 1999 45 percent of employees responded that they felt physically exhausted every week and the same percentage couldn't dismiss job from thoughts when off work (Statistics Sweden, 2001: 242).

Secondly, the organizational effects of high performance pressures need to be investigated closely. From an investor point of view there is a need of knowledge about unintended consequences of high performance pressure, which can led to conformity, loss of innovation and the 'milking' of business. There is also a need for a discussion on a societal level about corporate control that also takes other interests into account than those of the investors. Above all, CEOs have a moral obligation to reconcile between different demands and expectations. They should not passively align themselves to shareholder demands, but together with shareholders and other constituents try to achieve a balance between alignment to shareholder expectations on one hand and creativity, open communication, innovation and sustainable work conditions on the other hand. This may be a challenging task for the CEOs and senior management in these days of 'index capitalism' that requires both courage and good ethics, but nevertheless have a key role for shaping the organizations of the future. Thirdly, the phenomenon of expectations deserves larger scholarly attention, not least from researchers from a post-modern perspective who want to understand the reflexivity of today's society. In functional sociology – such as Talcott Parsons' – expectations was something that created harmony and integration as societies became more advanced (Wearne 1989). But expectations can also lead to changes that create tensions and conflicts of interests in society. For instance, it was large pension-funds for public employees as CalPERS who initiated the corporate governance movement that aimed to align executives to the interests of the shareholders (Carlsson, 2001). Thus employees are today affected by harsh demands on performance because the same employees in different settings want to have a good return on their retirement savings. But, whether the employees also want to sacrifice job security, and good working conditions in return for higher standard of living as pensioners is questionable. And if the impatience with low return on investments further increases, there will be even more dismissals of fund managers, CEOs, corporate managers and employees performing below 'index'. As Karl Weick (1995: 189) has put it: 'Expectations are real.'

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